

Message Text

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21/20

ACTION TRSE-00

INFO OCT-01 ISO-00 EA-11 NEA-10 IO-15 H-03 L-03 PRS-01

PA-03 USIA-15 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 /174 W

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R 090724Z OCT 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8463

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS

TAGS:EAID, EFIN

SUBJ: FINANCING OF INTEREST AND OTHER CHARGES DURING
CONSTRUCTION

SUMMARY: BANK MANAGEMENT SUGGESTS THAT AS GENERAL RULE,
BANK SHOULD NOT BE ADVERSE TO EXTENDING FINANCING OF INTEREST
AND OTHER CHARGES DURING CONSTRUCTION UNDER LOANS FROM ORDINARY
RESOURCES IN CASES WHERE BORROWERS REQUEST IT. USADB INCLINED
TO SUPPORT PROPOSAL. NAC COMMENTS REQUESTED. END SUMMARY.

1. ADB WORKING PAPER 5-73 ON ABOVE SUBJ POUCHED
OCT 2 AND IS SCHEDULED FOR BOARD CONSIDERATION OCT 18.

2. SUBJECT POLICY REFERS TO INCLUSION, IN ANY GIVEN
LOAN, OF AN AMOUNT EQUIVALENT TO INTEREY AND OTHER
CHARGES PAYABLE TO BANK DURING CONSTRUCTION PERIOD OF
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PROJECT. USUAL BANKING PRACTICE IS TO CHARGE INTEREST

ON LOAN FROM DATE OF DISBURSEMENT AND TO LEVY COMMITMENT FEE. AS OF END AUG 1973, BANK HAS FINANCED INTEREST AND OTHER CHARGES DURING CONSTRUCTION IN 30 LOANS AMOUNTING TO \$36.5 MILLION AND PREDOMINANTLY RELATING TO LOANS FROM ORDINARY RESOURCES. IN ALL CASES BANK'S CONSIDERATION OF SUCH FINANCING WAS RESULT OF SPECIFIC REQUEST FROM BORROWER TO BANK. MOST IMPORTANT FACTORS TAKEN INTO ACCOUNT BY BANK IN DETERMINING WHETHER OR NOT TO AGREE TO SUCH FINANCING ARE: (A) FINANCIAL POSITION OF PROJECT AUTHORITY TO PAY INTEREST AND OTHER CHARGES DURING CONSTRUCTION AND (B) DEBT SERVICE BURDEN AND/OR BALANCE OF PAYMENTS SITUATION OF BORROWING COUNTRY.

3. RE FUTURE POLICY, BANK PORPOSES FOLLOWING: (A) LOANS FROM ORDINARY RESOURCES-- AS GENERAL RULE, BANK SUGGESTS IT SHOULD NOT BE AVERSE TO EXTENDING SUCH FINANCING IN CASES WHERE BORROWERES REQUEST IT, AS RELATIVELY SMALL AMOUNTS INVOLVED DO NOT APPEAR TO CREATE ANY PROBLEM FROM RESOURCE POINT OF VIEW. HOWEVER AT ITS DISCRETION BANK MAY DECLINE REQUEST: FOR EXAMPLE, WHERE GOVT IS BORROWER AND BALANCE OF PAYMENTS OR DEBT SERVICE POSITION OF BORROWING COUNTRY IS CONSIDERED COMFORTABLE, OR IN CASE OF LINE OF CREDIT TO DEVELOPMENT BANK IN VIEW OF DIFFICULTY IN FULLY ANTICIPATION NATURE AND PERIODS OF CONSTRUCTION UNDER SUBLOANS. IN CERTAIN PROJECTS IN PAST, COMMITMENT CHARGE WAS EXCLUDED. IN FUTURE, INTEREST(INCLUSIVE OF COMMISSION) AND OTHER CHARGES WOULD INCLUDE COMMITMENT CHARGES IN ALL CASES. (HOWEVER, SPECIAL COMMITMENT CHARGE LEVIED UNDER SEC 4.02 OF LOAN REGULATION NO. 1, WHICH COULD ARISE ONLY IN FEW PROJECTS AND WOULD BE DIFFICULT TO CALCULATE IN ADVANCE, MAY BE EXCLUDED FROM SUCH FINANCING.)

(B) LOANS FROM SPECIAL FUNDS -- SINCE (I) THERE IS NO COMMITMENT CHARGE ON SUCH LOANS; (II) INTEREST RATES ARE MUCH LOWER; AND (III) TAKING INTO ACCOUNT LIMITED AVAILABILITY OF SPECIAL FUNDS RESMKCES; BANK SUGGESTS SUCH FINANCING SHOULD NOT NORMALLY BE MADE IN SPECIAL FUNDS OPERATION.

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4. USADB BELIEVES BANK MANAGEMENT'S SUGGESTIONS ARE REASONABLE RE EXTENDING FINANCING OF INTEREST AND OTHER CHARGES DURING CONSTRUCTION FOR ORDINARY CAPITAL LOAN PROJECTS. IN PAST, ISSUE HAS BEEN ADDRESSED ON AD HOC, CASE BY CASE BASIS BY BANK AND BOARD WITHOUT REFERENCE TO ESTABLISHED POLICY AND PROCEDURE. APPRECIATE COMMENTS PRIOR TO BOARD CONSIDERATION.
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Message Attributes

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Draft Date: 09 OCT 1973
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Decaption Note:
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Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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